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WHAT IS FREE TRADE?

Statement of HON. RON PAUL OF TEXAS

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Mr. PAUL. Madam Speaker, I asked for this Special Order this evening to talk about trade. We are going to be dealing with permanent normal trade relations with China here soon, and there is also a privileged resolution that will be brought to the floor that I have introduced, H.J.Res. 90. The discussion in the media and around the House floor has been rather clear about the permanent normal trade status, but there has not been a whole lot of talk yet about whether or not we should even really be in the World Trade Organization.

I took this time mainly because I think there is a lot of misunderstanding about what free trade is. There are not a whole lot of people who get up and say I am opposed to free trade, and many of those who say they are for free trade quite frankly I think they have a distorted definition of what free trade really is.

I would like to spend some time this evening talking a little bit about that, because as a strict constitutionalist and one who endorses laissez-faire capitalism, I do believe in free trade; and there are good reasons why countries should trade with each other.

The first reason I would like to mention is a moral reason. There is a moral element involved in trade, because when governments come in and regulate how citizens spend their money, they are telling them what they can do or cannot do. In a free society, individuals who earn money should be allowed to spend the money the way they want. So if they find that they prefer to buy a car from Japan rather than Detroit, they basically have the moral right to spend their money as they see fit and those kinds of choices should not be made by government. So there is a definite moral argument for free trade.

Patrick Henry many years ago touched on this when he said, 'You are not to inquire how your trade may be increased nor how you are to become a great and powerful people but how your liberties may be secured, for liberty ought to be the direct end of your government.' We have not heard much talk of liberty with regards to trade, but we do hear a lot about enhancing one's ability to make more money overseas with trading with other nations. But the argument, the moral argument, itself should be enough to convince one in a free society that we should never hamper or interfere with free trade.

When the colonies did not thrive well prior to the Constitution, two of the main reasons why the Constitutional Convention was held was, one, there was no unified currency, that provided a great deal of difficulty in trading among the States, and also trade barriers among the States.

Even our Constitution was designed to make sure that there were not trade barriers, and this was what the interstate commerce clause was all about. Unfortunately though, in this century the interstate commerce clause has been taken and twisted around and is the excuse for regulating even trade within a State. Not only interstate trade, but even activities within a State has nothing to do with interstate trade. They use the interstate commerce clause as an excuse, which is a wild distortion of the original intent of the Constitution, but free trade among the States having a unified currency and breaking down the barriers certainly was a great benefit for the development and the industrialization of the United States.

The second argument for free trade is an economic argument. There is a benefit to free trade. Free trade means that you will not have high tariffs and barriers so you cannot buy products and

you cannot exert this freedom of choice by buying outside. If you have a restricted majority and you can evenly buy from within, it means you are protecting industries that may not be doing a very good job, and there is not enough competition.

It is conceded that probably it was a blessing in disguise when the automobile companies in this country were having trouble in the 1970s, because the American consumer was not buying the automobiles, the better automobiles were coming in, and it should not have been a surprise to anybody that all of a sudden the American cars got to be much better automobiles and they were able to compete.

There is a tremendous economic benefit to the competition by being able to buy overseas. The other economic argument is that in order to keep a product out, you put on a tariff, a protective tariff. A tariff is a tax. We should not confuse that, we should not think tariff is something softer than a tax in doing something good. A tariff is a tax on the consumer. So those American citizens who want to buy products at lower prices are forced to be taxed.

If you have poor people in this country trying to make it on their own and they are not on welfare, but they can buy clothes or shoes or an automobile or anything from overseas, they are tremendously penalized by forcing them to pay higher prices by buying domestically.

The competition is what really encourages producers to produce better products at lower costs and keep the prices down. If one believes in free trade, they do not enter into free trade for the benefit of somebody else. There is really no need for reciprocity. Free trade is beneficial because it is a moral right. Free trade is beneficial because there is an economic advantage to buying products at a certain price and the competition is beneficial.

There really are no costs in the long run. Free trade does not require management. It is implied here on conversation on the House floor so often that free trade is equivalent to say we will turn over the management of trade to the World Trade Organization, which serves special interests. Well, that is not free trade; that is a misunderstanding of free trade.

Free trade means you can buy and sell freely without interference. You do not need international management. Certainly, if we are not going to have our own government manage our own affairs, we do not want an international body to manage these international trades.

Another thing that free trade does not imply is that this opens up the doors to subsidies. Free trade does not mean subsidies, but inevitably as soon as we start trading with somebody, we accept the notion of managed trade by the World Trade Organization, but immediately we start giving subsidies to our competitors.

If our American companies and our American workers have to compete, the last thing they should ever be required to do is pay some of their tax money to the Government, to send subsidies to their competitors; and that is what is happening. They are forced to subsidize their competitors on foreign aid. They support their competitors overseas at the World Bank. They subsidize their competitors in the Export/Import Bank, the Overseas Private Investment Corporation.

We literally encourage the exportation of jobs by providing overseas protection in insurance that cannot be bought in the private sector. Here a company in the United States goes overseas for cheap labor, and if, for political or economic reasons, they go bust, who bails them out. It is the American taxpayer, once again, the people who are struggling and have to compete with the free trade.

It is so unfair to accept this notion that free trade is synonymous with permitting these subsidies overseas, and, essentially, that is what is happening all the time. Free trade should never mean that through the management of trade that it endorses the notion of retaliation and also to stop dumping.

This whole idea that all of a sudden if somebody comes in with a product with a low price that you can immediately get it stopped and retaliate, and this is all done in the name of free trade, it could be something one endorses. They might argue that they endorse this type of managed trade and subsidized trade; but what is wrong, and I want to make this clear, what is wrong is to call it free trade, because that is not free trade.

Most individuals that I know who promote free trade around Washington, D.C., do not really either understand what free trade is or they do not really endorse it. And they are very interested in the management aspect, because some of the larger companies have a much bigger clout with the World Trade Organization than would the small farmers, small rancher or small businessman because they do not have the same access to the World Trade Organization.

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For instance, there has been a big fight in the World Trade Organization with bananas. The Europeans are fighting with the Americans over exportation of bananas. Well, bananas are not grown in Europe and they are not grown in the United States, and yet that is one of the big issues of managed trade, for the benefit of some owners of corporations that are overseas that make big donations to our political parties. That is not coincidental.

So powerful international financial individuals go to the World Trade Organization to try to get an edge on their competitor. If their competitor happens to be doing a better job and selling a little bit lower, then they come immediately to the World Trade Organization and say, Oh, you have to stop them. That is dumping. We certainly do not want to give the consumers the benefit of having a lower price.

So this to me is important, that we try to be clear on how we define free trade, and we should not do this by accepting the idea that management of trade, as well as subsidizing trade and calling it free trade is just not right. Free trade is the ability of an individual or a corporation to buy goods and spend their money as they see fit, and this provides tremendous economic benefits.

The third benefit of free trade, which has been known for many, many centuries, has been the peace effect from trade. It is known that countries that trade with each other and depend on each other for certain products and where the trade has been free and open and communications are free and open and travel is free and open, they are very less likely to fight wars. I happen to personally think this is one of the greatest benefits of free trade, that it leads us to policies that direct us away from military confrontation.

Managed trade and subsidized trade do not qualify. I will mention just a little later why I think it does exactly the opposite.

There is a little bit more to the trade issue than just the benefits of free trade, true free trade, and the disadvantages of managed trade, because we are dealing now when we have a vote on

the normal trade status with China, as well as getting out of the World Trade Organization, we are dealing with the issue of sovereignty. The Constitution is very clear. Article I, section 8, gives the Congress the responsibility of dealing with international trade. It does not delegate it to the President, it does not delegate it to a judge, it does not delegate it to an international management organization like the World Trade Organization.

International trade management is to be and trade law is to be dealt with by the U.S. Congress, and yet too often the Congress has been quite willing to renege on that responsibility through fast-track legislation and deliver this authority to our President, as well as delivering through agreements, laws being passed and treaties, delivering this authority to international bodies such as the UN-IMF-World Trade Organizations, where they make decisions that affect us and our national sovereignty.

The World Trade Organization has been in existence for 5 years. We voted to join the World Trade Organization in the fall of 1994 in the lame duck session after the Republicans took over the control of the House and Senate, but before the new Members were sworn in. So a lame duck session was brought up and they voted, and by majority vote we joined the World Trade Organization, which, under the Constitution, clearly to anybody who has studied the Constitution, is a treaty. So we have actually even invoked a treaty by majority vote.

This is a serious blunder, in my estimation, the way we have dealt with this issue, and we have accepted the idea that we will remain a member based on this particular vote.

Fortunately, in 1994 there was a provision put in the bill that said that any member could bring up a privileged resolution that gives us a chance at least to say is this a good idea to be in the World Trade Organization, or is it not? Now, my guess is that we do not have the majority of the U.S. Congress that thinks it is a bad idea. But I am wondering about the majority of the American people, and I am wondering about the number of groups now that are growing wary of the membership in the World Trade Organization, when you look at what happened in Seattle, as well as demonstrations here in D.C. So there is a growing number of people from various aspects of the political spectrum who are now saying, what does this membership mean to us? Is it good or is it bad? A lot of them are coming down on the side of saying it is bad.

Now, it is also true that some who object to membership in the World Trade Organization happen to be conservative free enterprisers, and others who object are coming from the politics of the left. But there is agreement on both sides of this issue dealing with this aspect, and it has

to do with the sovereignty issue.

There may be some labor law and there may be some environmental law that I would object to, but I more strenuously object to the World Trade Organization dictating to us what our labor law ought to be and what our environmental law ought to be. I highly resent the notion that the World Trade Organization can dictate to us tax law.

We are currently under review and the World Trade Organization has ruled against the United States because we have given a tax break to our overseas company, and they have ruled against us and said that this tax break is a tax subsidy, language which annoys me to no end. They have given us until October 1 to get rid of that tax break for our corporations, so they are telling us, the U.S. Congress, what we have to do with tax law.

You say, oh, that cannot be. We do not have to do what they tell us. Well, technically we do not have to, but we will not be a very good member, and this is what we agreed to in the illegal agreement. Certainly it was not a legitimate treaty that we signed. But in this agreement we have come up and said that we would obey what the WTO says.

Our agreement says very clearly that any ruling by the WTO, the Congress is obligated to change the law. This is the interpretation and this is what we signed. This is a serious challenge, and we should not accept so easily this idea that we will just go one step further.

This has not just happened 5 years ago, there has been a gradual erosion of the concept of national sovereignty. It occurred certainly after World War II with the introduction of the United Nations, and now, under current conditions, we do not even ask the Congress to declare war, yet we still fight a lot of wars. We send troops all over the world and we are involved in combat all the time, and our presidents tell us they get the authority from a UN resolution. So we have gradually lost the concept of national sovereignty.

I want to use a quote from somebody that I consider rather typical of the establishment. We talk about the establishment, but nobody ever knows exactly who they are. But I will name this individual who I think is pretty typical of the establishment, and that is Walter Cronkite. He says, 'We need not only an executive to make international law, but we need the military forces to enforce that law and the judicial system to bring the criminals to justice in an international

government.'

'But,' he goes on to say, and this he makes very clear, and this is what we should be aware of, 'the American people are going to begin to realize that perhaps they are going to have to yield some sovereignty to an international body to enforce world law, and I think that is going to come to other people as well.'

So it is not like it has been hidden, it is not like it is a secret. It is something that those who disagree with me about liberty and the Constitution, they believe in internationalism and the World Trade Organization and the United Nations, and they certainly have the right to that belief, but it contradicts everything America stands for and it contradicts our Constitution, so, therefore, we should not allow this to go unchallenged.

Now, the whole idea that treaties could be passed and undermine the ability of our Congress to pass legislation or undermine our Constitution, this was thought about and talked about by the founders of this country. They were rather clear on the idea that a treaty, although the treaty can become the law of the land, a treaty could never be an acceptable law of the land if it amended or changed the Constitution. That would be ridiculous, and they made that very clear.

It could have the effect of the law of the land, as long as it was a legitimate constitutional agreement that we entered into. But Thomas Jefferson said if the treaty power is unlimited, then we do not have a Constitution. Surely the President and the Senate cannot do by treaty what the whole government is interdicted from doing in any way.

So that is very important. We cannot just sit back and accept the idea that the World Trade Organization, we have entered into it, it was not a treaty, it was an agreement, but we have entered into it, and the agreement says we have to do what they tell us, even if it contradicts the whole notion that it is the Congress' and people's responsibility to pass their own laws with regard to the environment, with regard to labor and with regard to tax law.

So I think this is important material. I think this is an important subject, a lot more important than just the vote to trade with China. I think we should trade with China. I think we should trade with Cuba. I think we should trade with everybody possible, unless we are at war with them. I do not think we should have sanctions against Iran, Iraq or Libya, and it does not make much sense to

me to be struggling and fighting and giving more foreign aid to a country like China, and at the same time we have sanctions on and refuse to trade and talk with Cuba. That does not make a whole lot of sense. Yet

those who believe and promote trade with China are the ones who will be strongly objecting to trade with Cuba and these other countries. So I think a little bit more consistency on this might be better for all of us.

Alexander Hamilton also talked about this. He said a treaty cannot be made which alters the Constitution of the country or which infringes any expressed exception to the powers of the Constitution of the United States.

So these were the founders talking about this, and yet we have drifted a long way. It does not happen overnight. It has been over a 50-year period. Five years ago we went one step further. First we accepted the idea that international finance would be regulated by the IMF. Then we accepted the idea that the World Bank, which was supposed to help the poor people of the world and redistribute wealth, they have redistributed a lot of wealth, but most of it ended up in the hands of wealthy individuals and wealthy politicians. But the poor people of the world never get helped by these programs. Now, 5 years ago we have accepted the notion that the World Trade Organization will bring about order in trade around the country.

Well, since that time we have had a peso crisis in Mexico and we had a crisis with currencies in Southeast Asia. So I would say that the management of finances with the IMF as well as the World Trade Organization has been very unsuccessful, and even if one does not accept my constitutional argument that we should not be doing this, we should at least consider the fact that what we are doing is not very successful.